INFORMATION BULLETIN

May 31, 2012 **2012-4**

CHANGES TO QUÉBEC'S TAX SYSTEM PURSUANT TO THE UNDERTAKINGS TO HARMONIZE IT WITH THE FEDERAL TAX SYSTEM APPLICABLE IN 2013

To achieve greater harmonization of Québec's sales tax (QST) system with the federal goods and services tax (GST) and harmonized sales tax (HST) system, the governments of Canada and Québec entered into, in March 2012, a comprehensive integrated tax coordination agreement (Canada-Québec CITCA) with various commitments in this regard.

This information bulletin specifies the changes that will be made to the QST system pursuant to the undertakings to harmonize it with the GST/HST system applicable in 2013. Essentially, these commitments are as follows:

- the GST will be removed from the QST base as of January 1, 2013; to ensure that this removal has no impact on Québec's public finances, the 9.5% rate of the QST will, at the same time, be raised to 9.975%, i.e. the effective rate of the QST applicable until then;

- financial services that are currently zero-rated under the QST system will become exempt as under the GST/HST system as of January 1, 2013; as a corollary, the portion of the compensation tax on financial institutions attributable to the impact on public finances to the fact that input tax refunds are granted to suppliers of financial services will be eliminated as of the same date;

- the existing exemption mechanism from payment of taxes by governments and certain of their mandataries will be replaced by a tax payment and rebate mechanism as of April 1, 2013.

Moreover, this information bulletin describes certain changes that will be made incidentally to the QST system to ensure that application of the federal and Québec tax systems in Québec is even more uniform.

For information concerning the matters dealt with in this information bulletin, contact the secteur du droit fiscal et de la fiscalité at 418 691-2236.

The French and English versions of this bulletin are available on the ministère des Finances website at: www.finances.gouv.qc.ca

CHANGES TO QUÉBEC'S TAX SYSTEM PURSUANT TO THE UNDERTAKINGS TO HARMONIZE IT WITH THE FEDERAL TAX SYSTEM APPLICABLE IN 2013

1. **REMOVAL OF THE GST FROM QUÉBEC'S TAX BASE AND CORRESPONDING RISE IN THE QST RATE** **3**

1.1 Clarifications relating to the application of the 9.975% QST on a base without GST 3

1.2 Consequential amendments 4

2. **EXEMPTION OF FINANCIAL SERVICES** **5**

2.1 Transitional rules 6

2.1.1 QST excluded in the calculation of ITRs 6

2.1.2 Change of use rules for capital properties 6

2.1.3 Registration 9

2.1.4 Reporting periods 9

2.1.5 Allocation methods of ITRs of financial institutions 10

2.1.6 QST rebate for registered pension plan entities 10

2.1.7 Elections relating to transactions within a closely related group including a listed financial institution 11

2.1.8 Information return for financial institutions 11

2.2 Partial elimination of the compensation tax on financial institutions 12

3. **REBATE OF TAXES PAID BY GOVERNMENTS AND SOME OF THEIR MANDATARIES** **15**

4. **OTHER HARMONIZATION CHANGES** **16**

4.1 Supply before customs clearance 16

4.2 Optional registration of a non-resident of Québec who resides in Canada 16

1. REMOVAL OF THE GST FROM QUÉBEC'S TAX BASE AND CORRESPONDING RISE IN THE QST RATE

Currently, the QST at the 9.5% rate is calculated on a consideration that includes the GST at the 5% rate, so that the effective rate of the QST is 9.975%.

Under the Canada-Québec CITCA, the Québec government has undertaken to remove the GST from the tax base on which the QST applies, as of January 1, 2013. Accordingly, the QST system will be changed to stipulate the exclusion of the GST from the consideration of a supply as of that date.

To ensure that this removal has no impact on Québec's public finances, the 9.5% rate of the QST will, at the same time, be raised to 9.975%, i.e. the effective rate of the QST applicable until then.

As a result, as of January 1, 2013, the QST at the 9.975% rate will be calculated on consideration that excludes the GST.

1.1 Clarifications relating to the application of the 9.975% QST on a base without GST

The QST at the 9.975% rate will apply to taxable supplies regarding which such tax becomes payable as of January 1, 2013, in which case it will be calculated on the value of the consideration of the supply established excluding the GST.[1]

However, the QST system has many provisions for determining the time at which the tax becomes payable by the recipient of the taxable supply of property or a service.

In general, the QST is payable by the recipient on date of the day when the consideration for the supply is paid or of the day when such consideration becomes due, whichever occurs first. As a result of this rule, the QST is payable on the date of payment of the consideration by the recipient to the supplier or, if earlier, on the date when the latter delivers an invoice to the recipient. In addition, if the date shown on the invoice or the date of payment indicated in a written agreement is prior to the date when the invoice is delivered by the supplier, the QST becomes payable on the earlier of these two dates.

As a result, the time when the QST becomes payable depends on how a transaction bearing on the supply of a property or service is concluded, which evidently differs depending on the nature of the property or service that is the object of the transaction and the type of supply made.

The rules for determining the time when the QST at the 9.975% rate applies, depending on the nature of the property or service supplied and the type of supply made, are described below.

1 In the case of bringing corporeal property into Québec, the QST at the 9.975% rate will apply if the corporeal property is brought into Québec after December 31, 2012 and, where the tax must be calculated on the cost price or the value of the consideration of its supply, the price or the consideration will be established excluding the GST.

❑ Movable property and service

The taxable supply of movable property or a service will be subject to the QST at the 9.975% rate if all of its consideration becomes due after December 31, 2012 and it is not paid before January 1, 2013. In addition, the QST at the 9.975% rate will apply regarding any part of the consideration of such supply that becomes due after December 31, 2012 and is not paid before January 1, 2013. The QST will then be calculated, as the case may be, on the value of the total or partial consideration established excluding the GST.

If one of the provisions respecting the primacy rules under the QST system should apply in respect of a supply with the result that the time of liability corresponds to a date prior to January 1, 2013, the QST at the 9.5% rate will apply, in which case it will be calculated on the value of the consideration of the supply established by including the GST.

❑ Immovable

■ Supply by sale

The QST at the 9.975% rate will apply to the taxable supply of an immovable by sale made under a written agreement entered into after December 31, 2012, in which case it will be calculated on the value of the consideration of the supply established excluding the GST.

■ Supply otherwise than by sale

The rules described above regarding the taxable supply of movable property or a service will also apply regarding the taxable supply of an immovable made otherwise than by sale.

1.2 Consequential amendments

The required consequential amendments will be made to Québec's tax system to reflect, on the one hand, the removal of the GST from the consideration on which the QST is calculated and, on the other, the setting of the QST rate at 9.975%. Such is the case, for example, with the legislative provisions where the mathematical factors 100/109.5 or 9.5/109.5 are employed and those relating to various partial rebates of tax that may be made to an individual for a new residential unit or to a lessor for a new residential property.

2. EXEMPTION OF FINANCIAL SERVICES

The current QST system stipulates the zero-rating of all financial services, which allows businesses of this activity sector to obtain an input tax refund (ITR) for the properties and services acquired to carry out all the financial services they supply to their customers.

In view of the full harmonization of the QST system with that of the GST/HST regarding the tax treatment of financial services as of January 1, 2013, the latter currently zero-rated in Québec's tax system will then generally become exempt as in the federal tax system.

In essence, the result of such exemption is that the properties and services acquired by suppliers of financial services will no longer qualify for an ITR if these acquisitions are made for the purposes of carrying out the exempt financial services they supply.

Also, all the specific rules stipulated regarding financial institutions in the GST/HST system because of the exemption of financial services will be introduced into the QST system, with the necessary adaptations. In particular, these include:

- special rules for the purposes of calculating input tax credits;
- the relief rule for transactions within a closely related group including a listed financial institution;
- the special attribution method applicable to selected listed financial institutions;
- specific rules for imported supplies of services and incorporeal movable properties;
- rules for registration and the filing of returns and information.

In contrast, the specific rules in the QST system stipulated only because of the zero-rating of all financial services will become unnecessary and will be therefore repealed.[2]

Although the full harmonisation of the QST system with that of the GST/HST regarding the tax treatment of financial services on its own only involves the introduction into the Act respecting the Québec sales tax of the provisions contained in the Excise Tax Act,[3] with the necessary adaptations, nevertheless a set of transitional rules is required to ensure the proper passage, as of January 1, 2013, from a system of zero-rating of financial services to a system of exemption of most of them. These transitional rules are described in section 2.1.

Moreover, with the exemption of financial services as of January 1, 2013, the portion of the compensation tax on financial institutions that is attributable to the impact on public finances of granting ITRs to suppliers of financial services will no longer be justified and will therefore be eliminated as of that date. Section 2.2 deals with the partial elimination of the compensatory tax on financial institutions.

2 For instance, the rules stipulated in sections 280 and 281 of the Act respecting the Québec sales tax (R.S.Q., c. T-0.1).

3 R.S.C., 1985, c. E-15.

2.1 Transitional rules

2.1.1 QST excluded in the calculation of ITRs

To calculate their ITRs, registrants that supply financial services may not include the QST that becomes payable after December 31, 2012 for properties and services acquired to carry out exempt financial services.

2.1.2 Change of use rules for capital properties

The QST system includes change of use rules for the capital properties of a registrant. These rules apply where a registrant begins to use capital property in the course of its commercial activities or increases its use in such course, or where it reduces the use of the property in the course of its commercial activities or ceases using it in such course. They are designed either to enable the registrant to claim an ITR for the property if it begins to use the property in the course of its commercial activities or increases such use, or to recover the ITR previously claimed by the registrant for the property in the case of a reduction or cessation of its use in such course.

Since financial services currently zero-rated in the QST system will generally become exempt as in the GST/HST system as of January 1, 2013, this will result, for suppliers of financial services, in a reduction or cessation of the use of their capital properties in the course of commercial activities. In principle, the change of use rules for capital properties should thus apply and give rise to the recovery of ITRs for such properties.

Application of these rules could make businesses in the financial services sector less competitive, since it would imply significant costs for these businesses arising solely from the harmonization of the QST system with the GST/HST system with regard to the treatment of financial services. However, the purpose of such harmonization is not to recover the ITRs to which suppliers of financial services will have been entitled prior to its implementation in 2013.

Accordingly, transitional provisions will be introduced for the purposes of the change of use rules for capital properties so that the passage from zero-rating to exemption of financial services does not give rise to the recovery of ITRs in relation to such properties. Provisions will also be introduced to ensure a proper transition with respect to the application of the QST system regarding such properties in the future, in the event that there is a change of use or sale of such properties.

❑ Movable properties of a registrant other than a financial institution

In the case where a registrant, other than a financial institution, that uses movable property as capital property primarily in the course of commercial activities begins to use such property primarily for other purposes on January 1, 2013 because of the exemption of financial services, the following rules will apply:[4]

- the registrant will be deemed to have made, immediately before that time, a supply of the property by way of sale for no consideration;

4 The same rules will apply in the case where a registrant that is an individual or a partnership that uses a passenger vehicle or an aircraft as capital property exclusively in the course of commercial activities begins to use it other than exclusively in such course on January 1, 2013 because of the exemption of financial services.

— the registrant will be deemed to have received, at that time, a supply of the property by way of sale for use other than as capital property.

❑ Movable properties of $50 000 or less of a registrant financial institution

In the case where a registrant financial institution that uses movable property of $50 000 or less as capital property primarily in the course of commercial activities begins to use such property primarily for other purposes on January 1, 2013 because of the exemption of financial services, the following rules will apply:[5]

— the registrant will be deemed to have made, immediately before that time, a supply of the property by way of sale for no consideration;

— the registrant will be deemed to have received, at that time, a supply of the property by way of sale for use other than as capital property.

❑ Movable properties of more than $50 000 of a registrant financial institution

In the case where a registrant financial institution that uses movable property of more than $50 000 as capital property primarily in the course of commercial activities reduces or ceases its use in such course on January 1, 2013 because of the exemption of financial services, the following rules will apply:

— the registrant will be deemed to have made, immediately before that time, a supply of the property by way of sale and to have collected, at that time, the tax relating to the supply equal to the basic tax content of such property at that time;

— the tax that the registrant will thus be deemed to have collected will not have to be included in the calculation of its net tax;

— the registrant will be deemed to have received, at that time, a supply of the property by way of sale and to have paid, at that time, the tax relating to the supply equal to the basic tax content of the property at that time.

❑ Immovables

In the case where a registrant that uses an immovable as capital property in the course of commercial activities reduces or ceases its use in such course on January 1, 2013 because of the exemption of financial services, the following rules will apply:

— the registrant will be deemed to have made, immediately before that time, a supply of the immovable by way of sale and to have collected, at that time, the tax relating to the supply equal to the basic tax content of the property at that time;

---

5 The same rules will apply in the case where a registrant financial institution that is an individual or a partnership that uses a passenger vehicle or an aircraft as capital property exclusively in the course of commercial activities begins to use it other than exclusively in such course on January 1, 2013 because of the exemption of financial services, whether the value of the passenger vehicle or aircraft is $50 000 or less or more than $50 000.

- the tax that the registrant will thus be deemed to have collected will not have to be included in the calculation of its net tax;

- the registrant will be deemed to have received, at that time, a supply of the immovable by way of sale and to have paid, at that time, the tax relating to the supply equal to the basic tax content of the property at that time.

Similar rules will also be stipulated, with the necessary adaptations, regarding an immovable that a registrant that is an individual or a public service body other than a financial institution uses as capital property.

❑ Insignificant change of use

For the purposes of the change of use rules mentioned above regarding movable properties of more than $50 000 of a registrant financial institution and regarding immovables, the provision of the QST system concerning insignificant change of use, i.e. a change of use of less than 10%, must not be taken into consideration.

❑ Calculation of the basic tax content

As previously indicated, the tax that a registrant will be deemed to have collected through the application of the above-mentioned change of use rules regarding movable properties of more than $50 000 (in the case of a financial institution) and regarding immovables will not have to be included in the calculation of its net tax. However, to prevent a registrant from recovering in the future an ITR regarding such properties in the event that there is another change or use or sale of such properties, the calculation of their basic tax content will be changed. The effect of these changes will be to exclude the QST payable before January 1, 2013 for the purposes of the calculation, on January 1, 2013 or after such date, from the basic tax content of such capital properties.

2.1.3 Registration

The existing zero-rating of financial services in the QST system means that suppliers of such services are generally registered in the system, while the same suppliers may not be registered in the GST system because of the exemption of their services.

Taking into account, on the one hand, the harmonization of the QST system with that of the GST/HST regarding the tax treatment of financial services as of January 1, 2013 and, on the other, of the intention to simplify the joint administration of the two systems, suppliers of financial services that, on January 1, 2013, are registered in the QST system but not in the GST system will have to request the tax authorities to cancel their registration as of such date.

This cancellation of registration will not give rise to the application of the rules stipulated in the QST system for the recovery of ITRs previously claimed by a person who ceases to be a registrant.[6] However, the calculation of the basic tax content of the capital properties that the person holds immediately prior to cancellation of his registration will be changed. The effect of these changes will be to exclude the QST payable before January 1, 2013 for the purposes of the calculation, on January 1, 2013 or after such date, from the basic tax content of such capital properties.

Moreover, it is possible that listed financial institutions carrying on activities in a province participating in the HST system and in Québec, or in a non-participating province and in Québec, may be registered in the federal tax system on January 1, 2013, but not in Québec's system, given that prior to that date they were not deemed to have a permanent establishment in Québec for the purposes of the QST system.

However, with the harmonization of the QST system with the GST/HST system regarding the tax treatment of financial services as of January 1, 2013, the special attribution method applicable in the federal tax system will also apply in the QST system to listed financial institutions carrying on activities in a participating or non-participating province and in Québec, so that these institutions will then be deemed to have a permanent establishment there. Under these circumstances, if these institutions are already registered in the GST system, they will also have to register in the QST system.

2.1.4 Reporting periods

To simplify the joint administration of the QST and the GST systems, the reporting period of a registrant and the frequency of filing its returns in Québec's tax system must correspond with those it has in the federal tax system.

However, concerning registrants that are listed financial institutions, the QST system allows them, given the fact that these registrants may generally claim ITRs regarding properties and services acquired in the course of their activities, to choose a reporting period different from the one used in the GST system, which corresponds to their fiscal year unless they elect a shorter period to accelerate their filing frequency.

6 Section 209 of the Act respecting the Québec sales tax.

Since, as a result of the exemption of most financial services as of January 1, 2013, registered listed financial institutions will no longer be entitled to ITRs regarding properties and services acquired to carry out these services, these institutions will, like all other registrants, have to adopt the same reporting period in the QST system as in the GST system if such is not already the case.

This measure will apply as of January 1, 2013. Accordingly, the reporting period of a registered listed financial institution that begins January 1, 2013 will, as of that time, be twinned with its reporting period applicable in the GST system and will end on the same date as that reporting period. As for the reporting period of a registered listed financial institution that includes January 1, 2013, it will end on December 31, 2012. Such institution will have a new reporting period beginning January 1, 2013 that will, as of that time, be twinned with its reporting period applicable in the GST system and will end on the same date as that reporting period.

Moreover, concerning listed financial institutions required to register in the QST system on January 1, 2013 because they are already registered in the GST system on that date, they will have to adopt the same reporting period as in the GST system. In the case where the reporting period of a listed financial institution registered in the federal tax system includes January 1, 2013, its reporting period in the QST system will begin January 1, 2013 and will end on the same date as the reporting period including January 1, 2013 in the GST system.

2.1.5 Allocation methods of ITRs of financial institutions

The exemption of financial services in the QST system as of January 1, 2013 will then require that financial institutions allocate the use of their inputs used both to make taxable supplies of properties and services and exempt supplies of financial services in order to determine the percentage of the QST paid regarding such inputs that qualifies for an ITR.

To that end, they will have to apply the same allocation method as the one they use to determine the input tax credits they are entitled to under the federal tax system.

This measure will apply regarding the calculation of the net tax of a financial institution for a reporting period beginning after December 31, 2012.

2.1.6 QST rebate for registered pension plan entities

As with the GST/HST system, the QST system stipulates a rebate measure for registered pension plan entities whose provisions are generally harmonized with that of the federal tax system, subject to the necessary adaptations arising from the zero-rating of financial services in Québec's tax system.

As of January 1, 2013, these adaptations will no longer be required because of the exemption of financial services. The QST system will therefore be changed accordingly, in particular to replace the existing rebate rates of 100%, 88% and 77% with a single rate of 33% as of that date.

Accordingly, the 33% rebate rate will apply regarding an amount of tax payable or deemed to have been paid during a claim period beginning after December 31, 2012, unless an amount of tax equal to the amount of tax deemed to have been paid during such claim period becomes payable during a claim period ending before January 1, 2013, in which case the existing rebate rates of 100%, 88% or 77% will apply to such amount of tax equal to the amount of tax deemed to have been paid.

For the purposes of this transitional measure, a claim period of a pension entity that includes January 1, 2013 will end December 31, 2012 and a new claim period will begin January 1, 2013. Such new claim period will, as of that time, be twinned with its claim period then applicable in the GST/HST system and will end on the same date as that claim period.

2.1.7 Elections relating to transactions within a closely related group including a listed financial institution

The GST/HST system allows corporations that are members of a closely related group including a listed financial institution to elect to treat certain taxable supplies they make among themselves as exempt supplies of financial services.[7] A selected listed financial institution and a supplier to which it is closely related that have so elected may also further elect to use a method based on costs to determine the value of some of the supplies made among themselves for the purposes of calculating the institution's net tax, such further election applying to all the supplies to which the first election applies.[8]

To further simplify the joint administration of the QST and the GST/HST systems following their harmonization regarding the tax treatment of financial services as of January 1, 2013, persons that have made such elections in the federal tax system before January 1, 2013 will be deemed to have made the same elections in Québec's tax system. As for persons who make such elections in the GST/HST system after December 31, 2012, they will have to do likewise in the QST system.

So that these elections apply both in the QST system and in the GST/HST system, the concept of "closely related group" stipulated in Québec's legislation will be amended for the purposes of these elections by replacing the terms "resident in Québec" with the terms "resident in Canada".

2.1.8 Information return for financial institutions

As is the case in the GST/HST system, registrated financial institutions will have to file an annual information return in the QST system within six months following the end of their fiscal year. This measure will apply to the fiscal years of a financial institution beginning after December 31, 2012.

7 Section 150 of the Excise Tax Act.

8 Subsection 225.2(4) of the Excise Tax Act.

2.2 Partial elimination of the compensation tax on financial institutions

The compensation tax on financial institutions is based on three tax bases, i.e. paid-up capital, amount paid as wages and insurance premiums (including amounts established regarding insurance funds).

The rates of the compensation tax applicable to the various tax bases consist, on the one hand, of the base rates put in place to reflect the cost for the government of granting ITRs to suppliers of financial services and, on the other, a temporary rate increase announced in the 2010-2011 Budget as part of the Plan to return to budget balance.[9] This temporary rate increase applies for the period beginning March 31, 2010 and ending March 31, 2014.

The rates that currently apply to each of these tax bases, including the temporary increase, are:

- for paid-up capital, a rate of 0.25%;
- for amount paid as wages:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, a rate of 3.9%, which consists of a 2% base rate and the temporary rate increase of 1.9 percentage points,
  - in the case of a savings and credit union, a rate of 3.8%, which consists of a 2.5% base rate and the temporary rate increase of 1.3 percentage points,
  - in the case of any other person,[10] a rate of 1.5%, which consists of a 1% base rate and the temporary rate increase of 0.5 percentage point;
- for insurance premiums and the amounts established regarding insurance funds, a rate of 0.55%, which consists of a 0.35% base rate and the temporary rate increase of 0.2 percentage point.

In view of the exemption of financial services in the QST system as of January 1, 2013, the portion of the compensation tax on financial institutions that is attributable to the impact on public finances of granting ITRs to suppliers of financial services will no longer be justified and will therefore be eliminated as of that date. However, the portion of the compensation tax arising from the temporary rate increase introduced as part of the Plan to return to budget balance will continue to apply for the period initially stipulated ending March 31, 2014.

---

9 MINISTÈRE DES FINANCES DU QUÉBEC, *2010-2011 Budget – Budget Plan*, March 20, 2010, p. A.33; MINISTÈRE DES FINANCES DU QUÉBEC, *2010-2011 Budget – Additional Information on the Budgetary Measures*, March 20, 2010, p. A.102 to A.104.

10 Excluding an insurance corporation and a professional order that created an insurance fund under section 86.1 of the Professional Code (R.S.Q., c. C-26).

More specifically, as of its partial elimination on January 1, 2013 and subject to the rules stated hereunder, the compensation tax on financial institutions will no longer apply on paid-up capital and the rates of the compensation tax applicable to the other tax bases, for taxation years that begin before April 1, 2014,[11] will be:

- for amount paid as wages:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, a rate of 1.9%,
  - in the case of a savings and credit union, a rate of 1.3%,
  - in the case of any other person,[12] a rate of 0.5%;
- for insurance premiums and amounts established regarding insurance funds, a rate of 0.2%.

❑ Application date

The partial elimination of the compensation tax on financial institutions will apply as of January 1, 2013.

Where the taxation year of a person that is a financial institution at any time in the year includes January 1, 2013, the following rules will apply:

- the rate applicable for the calculation of the compensation tax on paid-up capital will correspond to 0.25% multiplied by the fraction obtained by dividing the number of days of the person's taxation year preceding January 1, 2013 during which it is a financial institution by the number of days of its taxation year during which it is a financial institution;
- the rates applicable for the calculation of the compensation tax on amount paid as wages will be:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, a rate of 3.9% regarding the amount paid as wages during the portion or portions of the person's taxation year preceding January 1, 2013 during which it is a financial institution, and a rate of 1.9% regarding the amount paid as wages during the portion or portions of the person's taxation year following December 31, 2012 during which it is a financial institution,
  - in the case of a savings and credit union, a rate of 3.8% regarding the amount paid as wages during the portion or portions of the person's taxation year preceding January 1, 2013 during which it is a financial institution, and a rate of 1.3% regarding the amount paid as wages during the portion or portions of the person's taxation year following December 31, 2012 during which it is a financial institution,

11 The applicable rules for determining the amount of the compensation tax arising from the temporary rate increase for a taxation year including April 1, 2014 are set out at page A.104 of the *Additional Information on the Budgetary Measures* of March 2010.

12 See note 10.

- in the case of any other person,[12] a rate of 1.5% regarding the amount paid as wages during the portion or portions of the person's taxation year preceding January 1, 2013 during which it is a financial institution, and a rate of 0.5% regarding the amount paid as wages during the portion or portions of the person's taxation year following December 31, 2012 during which it is a financial institution;

— the rate applicable for the calculation of the compensation tax on insurance premiums and the amounts established regarding insurance funds will correspond to the total of 0.55%, multiplied by the fraction obtained by dividing the number of days of the person's taxation year preceding January 1, 2013 during which it is a financial institution by the number of days of its taxation year during which it is a financial institution, and 0.2%, multiplied by the fraction obtained by dividing the number of days of the person's taxation year following December 31, 2012 during which it is a financial institution by the number of days of its taxation year during which it is a financial institution.

❑ Instalment payments

The instalment payments of a corporation may be adjusted, according to the usual rules, as of the first instalment following January 1, 2013, to reflect the effects of the partial elimination of the compensation tax. In the case of a financial institution other than a corporation, the amounts payable in respect of each month in relation to amount paid as wages will have to be adjusted regarding a payment attributable to a an amount paid wages after January 1, 2013.

3. REBATE OF TAXES PAID BY GOVERNMENTS AND SOME OF THEIR MANDATARIES

As part of the Canada-Québec CITCA, the federal and Québec governments have agreed to replace the existing exemption mechanism from payment of taxes applicable to their departments and some of their mandataries by a tax payment and rebate mechanism as of April 1, 2013.

Accordingly, as of that date, the federal government and its mandataries currently exempt from payment of the QST as well as the Québec government and its mandataries currently exempt from payment of the GST/HST and the QST will have to pay these taxes on their acquisitions of taxable properties and services, which they may subsequently recover by submitting a rebate claim to the Canada Revenue Agency for the GST/HST and to Revenu Québec for the QST.

This measure will apply to the GST/HST and to the QST that will become payable by a government entity after March 31, 2013. For greater clarity, the rules of the federal and Québec tax systems stipulating the time when the GST/HST and the QST become payable will apply to determining whether, as the case may be, the government entity may use an exemption certificate or must pay the taxes regarding its taxable acquisitions of properties and services.

4. OTHER HARMONIZATION CHANGES

In addition to the undertakings to harmonize the QST system with the GST/HST system applicable in 2013 set out in the preceding sections, the Québec government has also agreed under the Canada-Québec CITCA that it would ensure that the QST tax base as well as the administrative, structural and definitional parameters produce results identical to those produced under the federal tax system. In this context, certain changes will be made incidentally to Québec's tax system.

4.1 Supply before customs clearance

Goods imported into Canada but held at a customs warehouse by Canadian authorities do not give rise to payment of customs duties and other applicable federal taxes until they clear customs. Accordingly, the GST/HST system stipulates that the supply of imported goods that have not cleared customs before being delivered or made available to the recipient in Canada is deemed made outside Canada,[13] so that such supply is not taxable. As a result, the GST and, if applicable, the HST on imported goods are not payable until their customs clearance by the person who undertakes such clearance.

Québec's tax system has no comparable presumption. Consequently, the same supply of imported goods before customs clearance gives rise to the application of the QST, which may cause confusion in the application of the taxes by the supplier of these goods.

In view of the objective of obtaining identical results in the application of the two tax systems, the QST system will be changed to stipulate the same presumption of supply made outside Canada. This change will apply regarding a supply made after December 31, 2012.

4.2 Optional registration of a non-resident of Québec who resides in Canada

The QST system allows a person who is not a resident of Québec and is not required to register in this system to apply for registration if certain conditions are satisfied.[14] Such optional registration gives the person who is a non-resident of Québec the option to avoid the application of measures of the QST system dealing with drop shipments.

While the GST/HST system stipulates similar measures for drop shipments, it does not offer a person who does not reside in Canada the same registration opportunity.

To ensure uniform application of the federal and Québec tax systems in this regard, Québec's system will be changed so that optional registration is allowed in such circumstances only for a non-resident of Québec who resides in Canada. This change will apply as of January 1, 2013.

Moreover, non-residents of Canada who, prior to January 1, 2013, availed themselves of such optional registration in the QST system without being able to register in the GST system will have to request the tax authorities to cancel their registration on such date.

13 Section 144 of the Excise Tax Act.

14 Section 411.0.1 of the Act respecting the Québec sales tax.